**Review for the Final Exam in ECO 285, Fall 2016**

TWO PREVIOUS REVIEW SHEETS PLUS:

5 Possible AD/SRAS/LRAS Graph Scenarios including:

 Fiscal Policy – increasing G, increasing T … AD shift

 Self correcting mechanism (wages, business costs, SRAS shift)

 International Effects Domestically (Export led countries especially)
 Beginning with a recessionary or expansionary gap (Lags in Policy)

 Hydraulic Fracturing, Long-run increase in productive capacity (LRAS shift)

 Monetary Policy – Open Market Operation to Ms shift – transmission mechanism

Using discretionary Fiscal or Monetary Policy to close an expansionary or recessionary gap

**Classical Economists – Economy “Self-corrects” (Ch. 16)**

**Automatic stabilizers – what are these**

Lags in Fiscal Policy – Activist versus Passive debate (Ch. 16)

**Crowding out** and crowding in – note their effect on interest rates

**Sequestration – explain this for 3 points on the exam**

Twin deficits

What is the debt ceiling?

Financial intermediaries (banks)

**Banks** Two types of Bank failure – illiquidity (no cash) and insolvency (A<L)

 How banks create money – Be able to explain at least 3 banks of creation (P. Set #4)

 Money multiplier

 Deposit insurance

Central Bank Fed structure (3 parts – Board of Govs, Banks, FOMC)

 3 tools – discount rate, reserve requirements, open market operations

 Show how open market operations works

 Independent Central Banks versus part of the government

 Monetizing the debt

Twin Mandate of the Fed – Unemployment and Inflation

Money – definition, M1 and M2

3 roles (functions) of Money

Credit card – a pre-approved loan, not part of money but of loans

Equation of Exchange: MV = PY – Long Run (Velocity constant hypothesis)

Fed’s inflation goal is 2% “core” PCE inflation

Subprime mortgage

MBS – mortgage Backed security, TARP

Ways to Reduce the risk of “Too Big to Fail”

Hyperinflation – including a country currently experiencing it

Logic of Hyperinflation: excessive printing of money to finance government spending

Federal Budget Constraint: G – T = ∆Bonds + ∆M s

∆M s is an Inflation tax often called seignorage

Disinflation

Balance of Payments: Current Account and Financial Account

Appreciation or depreciation of a currency – calculations and effects graphically in For Ex mkt

Capital inflows and outflows – how do they affect the domestic economy?

Role of the Exchange Rate

Foreign Exchange Market: Demand for and Supply of a currency

Purchasing Power Parity

Real exchange rate

Fixed versus floating exchange rate regimes